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LOS ANGELES COUNTY
CITIZENS ECONOMY AND EFFICIENCY COMMITTEE

ROOM 372, HALL OF ADMINISTRATION / 500 WEST TEMPLE / LOS ANGELES, CALIFORNIA 90012 / 625-3611, Ext. 64605

April 5, 1967

Honorable Board of Supervisors
County of Los Angeles
383, Hall of Administration
Los Angeles, California

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UNIVERSITY OF CALIFORNIA

Gentlemen:

EXECUTIVE COMPENSATION

At the Board meeting on November 29, 1966, your Board approved our Committee's recommendation to hire an outside management consulting firm to develop a compensation plan for County executives covering the department head, chief deputy and division chief levels. At that time you specified that your approval was subject to our naming a firm and a fee satisfactory to your Board.

Since that time, we have interviewed a number of consultants in the compensation field and have received twelve proposals. We have evaluated these proposals and have selected one firm whose proposal, we judge, is the most favorable in terms of both study approach and fee. The firm is one of the most reputable in the field. The total cost is \$34,600, involving the assignment of two compensation specialists at full time for approximately four to five months. We believe this to be an extremely good price. A majority of the firms proposed fees between \$40,000 and \$50,000.

Raymond Arbuthnot
John C. Bollens
Davis Brabant
Max Candiotty
Myron J. Carr, Jr.
Maurice Rene Chez
Lynne A. Frantz
Harlan Loud
P. S. Magruder
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Irvin Mazzei
Maurice McAlister
Harold C. McClellan
Ferdinand Mendenhall
Robert Mitchell
Mrs. Benjamin Erick Smith
Burke Roche,
Executive Secretary

This report summarizes the reasons why we think this study is urgently needed.

Purpose of the Study

The sole purpose of the study is to develop a systematic and logical compensation plan for your Board to follow in setting executive salaries. Your Board is totally without such a plan now. As a consequence, the executive salary structure is in a state of utter confusion. Documentation supporting this statement is in the Committee files. To avoid prejudicing the proposed study as well as prevent embarrassment to concerned executives, we do not include specific examples of major inconsistencies in this report.

Mr. McClellan, Vice Chairman of our Committee, pointed out to your Board on November 29, that the County has an expenditure in the neighborhood of five million dollars a year invested in these executive salaries. We think their determination should be treated with the same care and attention which your Board gives to the annual expenditure of similar amounts in other budgetary areas.

Development of an Effective Plan

To develop an effective compensation plan involves much more than a random look at the salary levels of comparable positions in a few other cities and counties. To do the job properly - as experience in both private industry and public

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agencies indicates - will require detailed analysis of the responsibilities of each of the 350 positions, personal interviews with at least 200 to 250 of the concerned executives, the development of accurate job descriptions, the evaluation of internal relationships between positions using appropriate factor measurement, the comparison of the responsibilities of these positions to the responsibilities of similar positions in industry and other governmental agencies, the establishment of a ranking system to place each job in its proper grade and, finally, the assigning of appropriate salary ranges to each grade.

There is nothing radical or new about this approach. Every major corporation in the country has such a plan.

We cannot predict what the results of the study will be, insofar as current salary levels are concerned. We would expect some salary levels to be reduced, some to be raised, some to remain the same. With such a study, however, your Board for the first time will have before it a plan which will systematically evaluate and rank each executive job in the County in relation to all others and assign it an appropriate salary range. Such a plan will not preclude the possibility of your Board rewarding executives who do an outstanding job or denying increases to executives whose performance is marginal.

The 1965 Salary Hearings

What can happen when an executive body attempts to operate without a consistent salary plan was illustrated

most forcefully during the 1965 salary hearings. In two successive meetings, on May 25 and May 27, your Board raised the salaries of the Assessor, the District Attorney and the Sheriff three different times.

At the second meeting, your Board also raised the Chief Administrative Officer's salary but voted down a motion to raise the County Counsel and the Director of Charities. A week later at the meeting on June 8, your Board reversed itself and voted the raises for these two officials. Between May 25 and June 8 your Board raised the salaries of these six County officials by a total of \$28,372.

It was difficult for anyone observing these proceedings to understand on what basis your Board was making its decisions. In fact, after the third successive raise had been approved for the three elected officials, one member of your Board stated in the record that this action presented the Board "in a most ridiculous light in the public's eyes."

We should emphasize that we do not imply that these raises were necessarily exorbitant or unwarranted. Comparable raises are not uncommon at this level in private industry. We cannot imagine, however, a private corporation taking such action without benefit of any plan and using only the most elementary ground rules.

Why Not a Survey of All Employees?

At the November 29 meeting in which your Board approved the study of executive salaries, the question was raised as

to why we did not include all employees in our recommendation. Why just the top executives? The answer is that in our report to your Board of November 22, 1966, we did recommend a separate study covering all employees. However, such a study will be far more complex and costly than a study limited to executive salaries. We recommended, therefore, that this study be postponed until the new personnel organization is well established and the proposed changes in personnel administration are operating smoothly. We had in mind in particular the establishment of an effective employee relations ordinance covering procedures for negotiation and the orderly settlement of employee grievances and disputes.

We should note here - since some misunderstanding has occurred on this point - that our recommendation for a study of the compensation system covering all employees in no way conflicts with our recommendation to establish an employee relations function in the new Department of Personnel, responsible for negotiating salaries and working conditions with union and employee representatives. However excellent its compensation plan may be, County salary proposals should be subject to negotiation. In other words, County management, whatever its compensation plan, cannot rightfully assume a mantle of infallibility. The better the County's compensation plan is, however, the stronger is the County's position

for demonstrating fairness and validity in its salary proposals and the better the chance for reaching agreement with union and employee representatives.

Need for Unanimous Board Support

If even one member of your Board is opposed to the use of an outside consultant for the executive salary study, the consultant's chances of bringing the study to a successful conclusion are severely reduced - even though a majority of your Board supports the project. Such studies are difficult undertakings at best. They have small chance of satisfying everyone concerned, regardless of how skilled and experienced the outside consultant may be. If the study is criticized from the outset by a member of your Board, it is obvious that those executives who do not like the results will be provided with a base from which to attack the study. Therefore, if this report has not persuaded your Board to give unanimous support to the study, we would hesitate to recommend your spending money to bring in an outside consultant.

In this event, your Board may conclude that the Director of Personnel should then conduct the study using County personnel. We do not favor this alternative. A study using County personnel will take much longer and will place a heavy burden on the Department of Personnel at a time when it is deeply involved in correcting the abuses and red tape in the Civil Service system and working to develop effective and orderly

The following table shows the results of the survey.

Results are given for the first two years of the survey.

With regard to the third year, the results are as follows.

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employee relations procedures. In addition, it will place the Director of Personnel and his staff in a delicate position vis-a-vis their colleagues in other departments.

In contrast, outside consultants cannot be accused of bias or a personal interest in the results. In addition, they bring to the study the experience from similar studies in a wide variety of organizations, both private and public. For these reasons, private industry has found that outside consultants generally achieve much better results in conducting such studies.

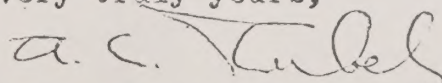
Recommendation

For the above reasons, we believe a study conducted by an outside consultant is essential to the early correction of the present chaotic state of executive salaries. It will not interfere with the development of the employee relations ordinance, and will not have any effect on a later study covering all employees.

We therefore recommend:

1. That your Board authorize a contract with the management consulting firm of our selection to develop a systematic compensation plan for a fee not to exceed \$34,600.
2. That your Board give this recommendation your unanimous support.

Very truly yours,



A. C. RUBEL, Chairman

